SUBMISSION

To The House of Commons Finance, Trade and Economic Affairs Committee on

The White Paper on Tax Reform

April 15, 1970

CANADIAN CONSTRUCTION ASSOCIATION

CONSTRUCTION HOUSE, 151 O'CONNOR STREET, OTTAWA 4, CANADA

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CONSTRUCTION HOUSE, 151 O'CONNOR ST.,
OTTAWA 4, CANADA
AREA CODE 613/236-9455

YOUR FILE ______

OUR FILE 214

April 15, 1970.

Mr. Gaston Clermont, M.P.,
Chairman,
and Members of the Finance, Trade
and Economic Affairs Committee,
House of Commons,
Ottawa 4, Canada.

Gentlemen:

Re: White Paper on Tax Reform

The Canadian Construction Association very much appreciates the opportunity of presenting its views on those proposals contained in the White Paper which have particular significance to the construction industry.

In addition, whereas the White Paper deals only with Income Tax matters, the Association strongly contends that it is impossible to exclude from the present review the matter of Estate and Gift Taxes, inasmuch as they are so directly related. Similarly, although the White Paper states that Sales Tax reform must await the execution of Income Tax reform, the Association wishes to stress that the industry's long-standing recommendations concerning the Federal sales tax do not involve "reform" and that decisions should not be further deferred by the Government in this area.

The importance of the White Paper's proposals to the construction industry is reflected by the fact that delegates attending the CCA's 1970 Annual Meeting selected this subject as the most important by a wide margin of all of those discussed.

Your Committee is expressly requested to give equal attention to the sections of this brief dealing with the unique nature of the construction industry's operations and make-up as to the section containing the Association's specific recommendations.

The construction industry is not only Canada's largest but it is also an extremely high risk industry whose members are virtually all family or closely-held firms, typically short on liquid assets and dependent upon their own resources for capital expansion and company growth. These factors have a vital bearing on the White Paper's proposals and therefore should be borne fully in mind when considering the Association's comments and recommendations. The unique aspects of the construction industry have all too often been passed over in the past formulation of tax policy and it is urged that this not be the case in the present detailed review.

All of which is respectfully submitted,

S.D.C. Chutter
S.D.C. Chutter,
General Manager

R.G. Saunders
R.G. Saunders,
President

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2. INTRODUCTION

(i) The Canadian Construction Association -- Membership and Operating Procedures.

The CCA was founded in Ottawa in 1918 as an industry-wide and nation-wide association of construction employers. Its membership is comprised of over 2,750 firms and over 100 member associations (Appendix "A"). The latter in turn have a combined membership in excess of 12,000 firms. The bulk of the contract construction program in Canada is carried out by members of the CCA and its Affiliates.

The Association's membership includes general building contractors; road builders and heavy construction firms; trade or specialty contractors, including manufacturing contractors; manufacturers and suppliers of construction materials and equipment; primary producers; and firms providing professional and specialist services. Its 24-member Board of Directors includes ten Provincial Vice-Presidents, appointed by CCA Provincial Affiliates; four Section Chairmen, representing the main groups of the Association's membership; and a Liaison Director representing the National House Builders' Association.

The CCA is proud of its reputation for submitting recommendations that are representative, reasoned and responsible. In the taxation field the Association presented a detailed brief to the Royal Commission on Taxation and was gratified that the bulk of its recommendations were specifically supported in the Royal Commission's Report. Briefs on taxation have also been submitted on a regular basis to the Federal Government for many years and the CCA's annual submission to the Federal Cabinet always contains an important section dealing with Fiscal Policies.

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Taxation matters are dealt with in the CCA by a Standing Committee. In addition to members drawn from individual member firms, the Committee's personnel is comprised of representatives appointed by member associations. In preparing for this brief the Committee not only held several of its own meetings but also distributed to the entire CCA membership a synopsis of selected portions of the White Paper and a detailed questionnaire; requested members to consult with their own tax advisors; and convened a special Forum during the CCA Convention at which its draft recommendations were discussed. The CCA Board of Directors also reviewed the draft material in detail on two occasions. A summary of the proposed recommendations was sent to the entire membership and a copy of the draft brief was sent to all member associations, CCA officers and members of the Taxation Committee for comment.

It is believed that the above-mentioned procedures ensure that the brief contains a widespread consensus of the construction industry's views on the White Paper's proposals which have particular application to its operations and therefore deserves your Committee's full consideration. (Other White Paper proposals not dealt with here would of course affect individual firms in the construction industry or have a general impact not peculiar to its members).

(ii) <u>The Size and Nature of the Construction Program</u>

Construction is a leading economic activity and generator of employment in every region of the country. The value of the construction program to be executed this year is estimated by the Federal Government to be in excess of $13.9 billion. This makes construction Canada's largest single industry by a substantial margin.

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Construction outlays have on average accounted for roughly one-fifth of the Gross National Product. They provide on-site jobs to the year-round equivalent of some 590,000 Canadians and to an even larger number engaged in the manufacturing, transporting and merchandising of construction materials, components and equipment.

The contents of the construction program are extremely varied and specialized in nature. 40% of the total is comprised of engineering construction work and 60% of building construction. Roughly half of the latter portion is residential construction. Within these broad categories the various main types of construction project range from subways to skyscrapers, from individual dwellings to integrated community developments, from dams to dredging, from pipelines to petrochemical plants, from highways to hospitals, from schools to steel mills, from nuclear plants to northern townsites, and from sewage systems to shopping centres.

Much of the construction program is located in or near the main metropolitan areas. On the other hand, many of the major projects are built far from the main centres of population and involve large-scale movements of men, materials and machinery to the job-sites.

The Dominion Bureau of Statistics estimates that over 80% of the construction program is carried out by contractors. The balance is executed by Owners ranging from those with sizeable construction forces to the "do-it-yourself" individual. The trend is increasing towards the use of the Contract Method. Even where prime contractors are not used, the materials, component installations and equipment are supplied by private firms. Moreover, equipment may be rented from private firms and some of the construction work let to specialty contractors.

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In most cases projects are initiated and financed by other parties than those building them. Over 40% of the construction program, for example, is financed by governments at the various levels and much of the privately-financed projects are facilitated by government loans, incentives or policies. The size, scope and complexity of individual construction projects have greatly increased in recent years. On the other hand, the great majority of the projects in the construction program are relatively small or medium-sized. About 20% of the total program is related to repair work.

3. VARIABLES AFFECTING CONSTRUCTION OPERATIONS

The construction program is subject to many important variables which greatly affect its size and the financial outcome of individual contracts. These variables, most of which are out of the industry's control, make construction a high-risk venture.

The "construction cycle" has traditionally experienced wider swings than the business cycle. Moreover, within the overall construction program there are frequently substantial fluctuations from year to year in the volume of work available to the various sections of the industry and in the various sections of the country.

This instability in the size of the construction program is a basic fact of life for construction firms. These fluctuations have been further accentuated by the construction programs of the senior governments and the latter's tendency to use the construction program as a medium to stimulate or slow down the overall level of economic activity. The introduction or cancellation of programs and changes in monetary policy often lead to abrupt changes in the level of construction activity, especially in the fields of housing and public works.

Moreover, the instability of the construction program has been cited in turn as the main factor explaining the relative lack of stability in the field of construction labour relations. Work stoppages, jurisdictional disputes, excessive settlements etc. have been far more widespread in the construction industry in terms of the numbers affected than in other major industries and have a most serious effect on the profit or loss outcome of a contract.

The high risk nature of construction operations has placed stringent limitations on the availability of funds to firms in the industry through the public sale of stocks or bonds. This in turn has meant that construction companies have had to rely heavily on the banks, on trade

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credit and on their own earnings to finance their operations and business expansion. Similarly, it has made construction firms especially vulnerable to arbitrary restrictions on the amount of bank credit following the imposition of monetary restraints.

Moreover, it should be noted that construction companies experience unique cash flow problems due to mechanics' lien legislation and other payment hold-back requirements. Bankruptcies can and do cause chain reactions affecting other construction industry firms which are either creditors or which are faced with the added expenses of delays and those related to the fulfilling of sub-contracts or supply orders originally awarded to the firm going bankrupt.

Construction companies require financial resources to tender on work in the first place. For instance, they may have to post a certified cheque with their tender which is held by the Owner as security until the completion of the contract. Alternatively, the contractor may be required to furnish a surety bond. A company's "bonding limit" is directly related to its financial situation. A decrease in its liquid balance, for example, will lead to a decrease in its bondability and the amount of work it can tender.

The vast majority of construction work is executed on a firm price contract basis. These contracts often cover periods of a year or two or even longer, during which time construction costs may be materially affected by changes in the cost of labour, materials, equipment and overhead expenses and by new legislation.

In addition, the execution of construction work -- and its cost -- is subject to variables related to weather conditions and to soil conditions. Scheduling is of vital importance. Costly delays may be incurred due to slow decisions on design matters and in the preparation of design changes. Transportation facilities may only be available at

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certain times of the year for remote location projects. Delays out of the contractor's control may mean that products required for a project miss a production run. Contractors may well be subject to onerous penalties if completion dates are not met.

Contract provisions stipulated by some owners and legal decisions can add greatly to the contractor's risks. These include responsibility for the adequacy of designs prepared by other parties, the lack of recourse against the supervising engineer's or architect's decisions, the insertion of onerous "hold harmless" clauses by the Owner, and the denial of compensation to contractors for extra costs due to inaccurate information on sub-surface conditions, changes in quantities, delays in payment etc.

The above incomplete list of variables and business risks is not intended to paint a picture of gloom but rather to illustrate that construction firms have out-of-the ordinary financing needs, that tendered amounts are but estimates, and that a potential profit picture can and does change rapidly. This unique combination of factors causes special problems and conditions in the construction industry that should be recognized in the formulation of tax policy.

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4. MAKE-UP OF THE CONSTRUCTION INDUSTRY

(i) Companies

The family corporation or one which is "closely-held" appears to have characteristics that are especially appropriate for the construction industry. All but a handful of the general contractor, trade or specialty contractor, equipment distributor and builders' supply firms are in this category. Even some of those which are publicly listed are still controlled and operated by the founding family or company principals. (Firms manufacturing construction products are the usual mixture of widely-held and closely-held firms).

This situation may be explained in large measure by the facts that entry into the industry is easy, that the limited liability status available through incorporation is especially important to construction companies and that the majority are small or medium-sized firms. But that is not the whole story.

As has been noted above, construction is a high risk business with many hazards. Capital investment in construction equipment is often heavy. Builders and developers initiating their own projects have large amounts of capital tied up in land and buildings. Competition throughout the industry for contracts and sales is exceedingly keen. These factors are such that <u>a high degree of personal financial stake and involvement in the management of companies in the construction industry are particularly important elements in their success.</u>

A closely-related characteristic of the construction industry is that of specialization. Prime contractors tend to specialize in certain types of construction work and in the provision of services. For example, their co-ordination of operations on a job-site is a specialized function in itself. The high degree of specialization in the industry is also reflected by the

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abundant use of sub-contractors and sub-sub-contractors and even of sub-sub-sub-contractors. This specialization and the fact that those supervising these specialized operations have a personal incentive to see that the work is carried out as quickly and as economically as possible have been cited as the main reasons why construction work is executed faster and with a smaller on-site labour force in North America than, say, in Europe.

It is noteworthy that many large manufacturing concerns, as a matter of policy, select family or closely-held firms to act as their distributors. This is done in order to obtain the same qualities of aggressive, personal management by people with a direct financial stake in the success of their regional representation.

It should also be stressed that many of the firms in the construction industry have developed over the years to the point that they are now multi-million dollar businesses. A high proportion of them are second or third generation firms. To survive and expand over such a lengthy period in the construction industry is testimony enough of the managerial ability and tenacity of the principals concerned. The Association strongly contends that, whereas the Carter Commission commented that there was nothing special about family-owned firms that necessarily made them more efficient than others, family firms and other closely-held corporations do in practice appear to be especially well suited to carry out most construction operations.

In summary, it is urged that the special characteristics of firms engaged in Canada's largest industry be taken into full account in the consideration of new tax proposals. The construction industry, apart from its manufacturing sector, is comprised very largely of incorporated family or closely-held firms. They require relatively large amounts of money for their operation and expansion, and in this regard have extremely limited scope in

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raising funds through the sale of stocks and bonds. Construction volumes and company profits are subject to widespread fluctuations and individual projects to many variables and cost factors out of the company's control. Competition is keen and the casualty rate is heavy.

Canada is dependent upon the construction industry for the provision of the physical means for the nation's economic development and higher standards of living. Family firms and other closely-held companies are particularly appropriate for the high-risk construction industry because of the involvement of their owners in the management and supervision of specialized construction operations. Construction company owners generally do not have widespread investment other than in their own companies.

(ii) Construction Personnel

Construction employers are naturally also concerned about the effect of tax reforms on their employees. Here again, there are distinctive characteristics in the construction labour force. The most significant of these is that of mobility. It is commonplace for construction tradesmen and equipment operators not only to work on different job-sites (possibly in quite widespread locations) each year but also for different employers. The absence of a continuing employer-employee relationship in one location for most of the construction labour force, together with employment opportunities in the main centres of construction activity, both in Canada and abroad, combines to produce an above-average tendency for construction workers to move to where they can increase their take-home pay. Many of the skilled tradesmen and equipment operators are in the middle income group.

The same situation also exists with respect to foremen, superintendents, project engineers, administrative personnel etc., although employers tend to keep on their key people even if they do not have current assignments for them. The fact that there is a

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shortage of trained construction personnel in the U.S.A.; that wages and salaries are in general appreciably higher there and taxes lower; and that most in these categories are past U.S. draft age are a continuing source of concern that a large number of key employees may emigrate if the after-tax income differential widens.

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5. GENERAL OBSERVATIONS ON WHITE PAPER ON TAX REFORM

Last year the Association expressed on behalf of the construction industry very grave concern over some of the provisions of Bill C-165 dealing with estate and gift taxes with resepect to their effect on the ability of family construction firms to continue operations on their passing from one generation to the next. This in turn would tend to encourage sell-outs of existing firms and discourage company expansions or the formation of new ones.

It was conceded that estate taxes placed a special burden on family firms and on estates in which the major assets are not liquid. (Both factors are the norm in the construction industry. The two main assets of a contracting firm are know-how and equipment. Neither are liquid in nature and a firm may well have considerable indebtedness to boot). However, the Bill was not referred to your Committee for study and it was passed with a few minor amendments.

This year the Government's proposals have been introduced in White Paper rather than in Bill form, have been referred to your Committee for study and in general have been designated for public debate and comment. The new procedure is warmly welcomed by the Association and it is hoped that full consideration will be given to the impact of the White Paper's tax reform proposals on:

(i) the level of construction activity - i.e. on the capital investment decisions of those initiating construction projects

(ii) the future operations and efficiency of construction firms -- i.e. very largely incorporated family firms or closely-held companies requiring self-generated capital for expansion

(iii) the very mobile construction labour force -- i.e. in terms of income after taxes available in different jurisdictions to managerial, supervisory and skilled trade personnel.

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Before submitting its specific recommendations, the Association would like at the outset to make some general observations on the Federal Government's proposals for tax reform:

Firstly, whereas the White Paper deals only with Income Tax matters, it is strongly contended that it is impossible to exclude from the present review the matter of Estate and Gift Taxes, inasmuch as they are so directly related. Similarly, although the White Paper states that Sales Tax reform must await the execution of Income Tax reform, the Association wishes to stress that the industry's long-standing recommendations concerning the Excise Tax Act do not involve "reform" and that decisions should not be further deferred by the Government in this area.

Secondly, some of the proposals in the White Paper are seen as a further threat to the competitive enterprise system. For instance, the proposals that the middle income group and small incorporated businesses both be taxed more heavily will, if implemented, combine to reduce the feasibility of establishing or expanding a business and the incentive to do so. Moreover, such factors would tend to have a greater adverse effect in the under-developed areas and thereby increase the present regional disparities.

Thirdly, whereas the White Paper expressed the desirability of achieving greater equity in tax matters without sacrificing economic development, it is stressed that in a young nation such as ours due emphasis must be placed on the accumulation or attraction of funds for industrial expansion and other capital investment needed to support a comprehensive program of social measures.

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Fourthly, the Association has long urged that Canadian taxes not get out of line with those of other countries, especially the United States of America. In this regard, it will be noted that the new schedule of estate taxes introduced last year in Canada arrives at higher rates of tax much more quickly than is the case in the U.S.A. The Government's proposed first venture with respect to a capital gains tax is similarly more onerous than the one exacted in the United States. These and other tax proposals promise to widen the tax differential between the two countries which exists in a number of areas.

It would be appreciated if these factors, together with the unique features of the construction industry's composition and operations, are borne in mind in the consideration of the ensuing comments and recommendations.

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6. RECOMMENDATIONS

(i) Repeal of Estate and Gift Taxes

The submissions made by the CCA last year to the Minister of Finance and the Senate Committee on Banking, Trade and Commerce (Appendix "B") with regard to Bill C-165, which amended both the estate tax and gift tax legislation, urged that action in these fields be postponed and included in the White Paper on Tax Reform. It is now obvious that the Association's fears were justified and that it is grossly unfair and unrealistic to incur the combined impact of revised income tax laws and the new estate and gift taxes.

If the proposal to tax capital gains at the full rate is incorporated into law, it then becomes essential to abolish or at least greatly modify the gift and estate tax laws so as to allow closely-held (family) corporations to survive from one generation to the other. As stated in Section 4 of this brief, construction firms are comprised mainly of family-owned or closely-held corporations and the latter are particularly suited to construction operations. The continuation of such enterprises should therefore be encouraged rather than discouraged.

Despite the suggestion that capital gains tax need not be paid at the time of death, it is obvious that any forced sale of assets required to meet the demand for estate taxes will in many cases run into crippling income tax imposts on the capital gains realized. This is particularly true in the case where retroactive tax is levied on goodwill as provided in paragraph 5.8 of the White Paper. The total impost reaches such high proportions that it amounts to confiscation by the Government and must be recognized as such. If it is the Government's policy to impose confiscatory levies, then it should be plainly stated by it that this is so. The following examples illustrate the problem:

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Taxable value of estate	\$ 300,000	\$1,000,000
Estate tax	89,200	439,200
Net estate	\$ 210,800	\$ 560,800
Value of shares of closely-held corporation included in estate	\$ 200,000	\$ 800,000
Cost basis thereof to estate or beneficiary -		
Cost to deceased	\$ 10,000	\$ 100,000
Plus estate tax applicable to the gain	56,500	307,400
	\$ 66,500	\$ 407,400
Gain on disposal	\$ 133,500	\$ 392,600
Tax on gain at 50% rate	\$ 66,750	\$ 196,300
Net assets available to estate or beneficiary	\$144,050	\$ 364,500
Percentage of assets remaining	48%	36%

(Source: Clarkson, Gordon & Co. report)

The estate tax revenue to the Federal Government is not a significant factor with regard to total revenues. The latest figures show \$112,600,000 annual receipts from estate tax compared to a total revenue of \$8,986,300,000, being slightly more than 1 per cent of the total. A high percentage of estate taxes collected is transmitted to the Provincial Governments. Two provinces have already adopted a policy to refund their share of this money to the taxpayer.

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It is incumbent upon the Government to take action to avoid confiscation by tax while at the same time to restore equilibrium by repealing the estate and gift taxes.

(ii) Rates of Corporation Income Tax

While endorsing in principle the proposal of the Government to integrate corporate and personal income tax, the Association does not accept the statement in the White Paper that it is necessary to tax all corporations at the proposed 50% rate on all income.

It is obvious from reading the White Paper and reviewing statements by the Minister of Finance and other members of the Government that there is a basic difference in philosophy with respect to retained earnings between them and members of the construction industry.

The Government apparently feels that retained earnings are a vehicle whereby certain taxpayers can accumulate funds at the lower corporate tax rate of 21 per cent and spend much of their time devising schemes to extricate these funds without additional payment of tax. This may be so in some cases, but in the construction industry, retained earnings are for the most part regarded as a prime source of working capital.

The risky nature of our industry's operations precludes new ventures and, at certain times and in many cases, mature enterprises from making use of the normal sources of funds for working capital requirements. It would be impossible, for example, to float a stock or bond issue for a new construction company. The banks, due to provincial mechanics' lien legislation and other peculiarities of the industry, are restrictive in funding construction companies. The working capital that is generated by the lower rate of tax on the first $35,000 of income is accordingly of great importance to firms in the construction industry and the retention of the present split rate of corporation income tax is strongly recommended.

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The Association recognizes the problems of incorporating split corporate rates of income tax into an integration scheme. It therefore strongly urges the Government to consider an alternative proposal that a corporation be allowed the option of deferring 50 per cent of the full tax on the first $50,000 of income until dividends have been distributed. It is believed that this would provide for the working capital needs of small companies, while at the same time ensuring that there is no loophole for tax evasion.

	WHITE PAPER		C.C.A. PROPOSAL	
	Company "A"	Company "B"	Company "A"	Company "B"
Taxable Income	$ 50,000	$ 100,000	$ 50,000	$ 100,000
Proposed Tax	25,000	50,000	12,500	37,500
Deferred Tax	-	-	12,500	12,500
Amount of funds for working capital	25,000	50,000	37,500	62,500

It can be seen from the above-noted example that both Company "A" and Company "B" will have an additional $12,500 working capital. This is most significant when it is considered that the rate of expansion of a construction company is limited effectively by its capacity to obtain bonds which are required for most construction contracts. These bonds include:

(a) Bid Bonds

These guarantee that a contractor will enter into a contract at the price he submitted in his bid, or be penalized.

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(b) Performance Bonds

These bonds ensure that the contract will be performed in accordance with the specifications.

(c) Labour and Material Payment Bonds

These protect the owner against losses arising from the contractor's default in payment to direct sub-contractors or suppliers for work done with respect to the contract.

As a rule of thumb, bonding companies will not usually bond a contractor whose net quick asset position is less than 10% of total contracts in progress. The net quick assets are defined as being current assets minus current liabilities. It can therefore be seen in the examples above that in each case the contractor's bonding capacity is increased by $125,000. Therefore, not only does he have working capital to cover overhead expenses and holdbacks, but his ability to tender on more work is enhanced.

The financing of holdbacks, which is usually an amount of 15 per cent retained by the owner from his periodic payments for work that has been approved until the satisfactory completion of the work, places a peculiar financial strain on the contractor which gives rise to a unique requirement for working capital.

It is submitted that the CCA proposal would not only assist the contractors in generating working capital for their own use but at the same time would ensure that all dividends received by individual shareholders can be treated in the same manner for integration purposes. For example, in the foregoing case, a dividend distribution would produce the following results (assuming that dividends are distributed in the second year):

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	WHITE PAPER		C.C.A. PROPOSAL	
	Company "A"	Company "B"	Company "A"	Company "B"
Earned surplus	$ 25,000	$ 50,000	$ 25,000	$ 50,000
Deferred tax	--	--	12,500	12,500
Amount declared for distribution	25,000	50,000	25,000	50,000
Deferred tax payable prior to distribution	--	--	(33 1/3% of $25,000) = 8,333.33	12,500
Amount distributed as dividends	25,000	50,000	16,667.67	37,500
Balance in deferred tax account	--	--	4,167.67	--

The computing and payment of deferred tax would not be difficult trom an accounting point of view as long as it is stipulated that any distribution of funds is subject to deferred taxes payable prior to distribution.

It has been conceded by the Minister of Finance in his appearance before your Committee that some form of income tax incentive, such as that proposed in the Royal Commission on Taxation report, should be granted for new corporations. Our concern with the Royal Commission proposal, which would allow accelerated depreciation for new corporations, is that it would not benefit those firms which have a relatively small investment in depreciable assets compared to capital intensive companies. The proposal outlined above would be more equitable, although we could envisage a situation where a taxpayer could take the choice between an accelerated depreciation allowance or a deferred tax payment, if the former is attractive to your Committee.

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(iii) Time Limit for Dividend Distribution by Corporations

The White Paper proposed that there be a $2\frac{1}{2}$ -year time limit on the payment of dividends by corporations in order that individual shareholders may obtain an income tax credit for corporation income tax paid. This is most undesirable for firms which need to generate funds internally for expansion. The proposal should be deleted.

The continued emphasis in the White Paper on the distribution of earnings rather than on their retention as working capital is difficult to understand from the point of view of the construction industry where working capital is the paramount requirement. Surely the fact that a particular shareholder obtains a tax credit on taxes that were paid on earnings when a different shareholder was involved indicates a weakness in the integration system and should not force payment of dividends, either in the form of cash or stock, to the detriment of the corporation. If the Government is concerned over the possible transfers of shares between a high tax-rate shareholder and a low-rate individual made to obtain additional tax credit regulations should be adopted to prevent them, rather than to require firms to distribute badly-needed working capital.

If the CCA's proposals for deferred tax are accepted as an alternative to the split rate corporate tax, an automatic equalization would of course occur. On the one hand, tax credits would be accumulating to the individual taxpayer, while at the same time, tax credit would be accumulating to the Government from the corporation involved. Therefore, any payment from surplus would first be required to account for the tax deferred on the dollars distributed which would then of course offset the impact on the Treasury of any tax credits claimed by individual shareholders.

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(iv) Taxation of Capital Gains

a) Combined Impact of Estate and Gift Taxes

As stated in Recommendation (i), the Association is deeply concerned over the combined impact of capital gains tax and estate and gift taxes on the ability of a closely-held construction company to survive from one generation to the next. It is our view that estate taxes are already a tax on capital gains and full allowance should be made for this fact. The proposal to transfer assets to heirs at the acquisition value of the testator will only be effective on those cases where enough liquid assets are available to pay the estate taxes. A sale of shares or other assets cannot be regulated according to need, as there is no viable market for minority holdings in closely-held construction companies. To raise the cash, sellouts are often required, and the proposed tax on capital gains would be devastating.

The Department of Finance paper submitted to your Committee by the Minister of Finance on March 10, 1970 regarding the periodic revaluation of widely-held shares indicates that a seriously-considered alternative to the perplexing five-year deeming of tax on unrealized gains arising from such shares would be the deemed realization of capital gains at the time of death. This compounds the concern in our industry that closely-held corporations would encompass "closely-controlled, widely-held companies".

It is essential, therefore, that relief be granted in such instances, either by the removal of estate taxes or by meaningful reductions in the tax on capital gains. For example, the exemption granted to spouses from estate taxes could be extended to capital gains, i.e. rather than deeming realization of capital gains, the spouse could have the option of transferring the shares at the purchase value of the deceased.

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b) Deterring Effect on "Going Public"

In addition to the combined imposts noted above, the Association is also concerned with the deterring effect of the capital gains tax proposals on the closely-held corporations which, for sound business reasons, are considering offering their shares on the public exchanges.

The capital gains tax that could be exigible at that time could easily pose a serious stumbling-block to the expansion program. If this stumbling-block can be overcome and if the owners wish to retain control of the enterprise, which is the normal practice in the construction industry, they must concern themselves with the five-year payment of tax on unrealized gains. Such tax could cause the sale of stocks concerned to the extent that control would slip from the founding group. Faced with these very real tax liabilities and possible loss of control, companies which have good and proper reasons for offering public shareholdings will be inhibited from doing so.

It is submitted that such would be contrary to the economic good of both the construction industry and of Canada as a whole. The consequences of the foregoing results of the White Paper proposals would be that closely-held corporations will tend to be sold "en bloc" and the established procedure of owners selling an interest to employees over a period of time will tend to disappear. The larger closely-held corporations will be saleable only to other larger Canadian corporations or foreign interests, which would in time result in a concentration of power and control of the industry in a few major corporations.

The Association would like to comment on the specific modifications that have been suggested to the Department of Finance, as reported to your Committee by the Minister of Finance in his submission of March 10, 1970:

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1. "Some have suggested time to pay the tax, either with or without interest."

   This suggestion has merit and would be consistent with the provisions incorporated in the recently amended estate tax and gift tax law.

2. "Others have suggested the governments accept some of the shares in payment".

   This suggestion may have merit, but would bring the Government into various areas where it is not already involved and could put it in the untenable position of being a shareholder on the one side and a tax collector on the other, with all the schizophrenic ramifications that would pertain.

3. "Still others have suggested that controlling blocks of shares be excused, or that any taxpayer be subject to revaluation on no more than 5 per cent of the issued shares of any corporation - any additional holding would be excused from revaluation."

   It is felt that suggestions #3 and #4 are not mutually exclusive. If the share were not exempted from revaluation in accordance with suggestion #4, then certainly suggestion #3 has considerable merit.

4. "In a somewhat similar vein, some have suggested that a taxpayer not be required to revalue shares in a widely-held corporation if he acquired the shares while the corporation was a closely-held corporation."

   The Association wholeheartedly supports this suggestion. It would certainly remove one of the major stumbling-blocks of the problem noted above vis-a-vis the ability of closely-held construction companies to "go public".

5. "A different type of suggestion, either in addition to or in substitution for the others is that periodic revaluation be extended to closely-held corporations so as to remove the distinction - for example, the Government of Ontario suggested that all other assets be revalued every 15 years, and others have suggested that all corporations over a certain size be classified as widely-held so as to remove the distinction between large corporations."

   The Association is strongly opposed to suggestion #5 and maintains that the guiding principle of taxation should be to minimize the tax on unrealized gains on any type of asset.

....

"In addition to these modification, it has been suggested that the proposal be dropped entirely."

The concluding proposal, that periodic revaluations be dropped entirely, has much merit and, if adopted, it would preclude the necessity of considering the other proposals.

c) Capital Gains Tax Rate

The Association is concerned that the proposal to tax capital gains at the full personal rate of tax (other than those obtained from the sale of widely-held company shares) will have a detrimental influence on the attractiveness of Canadian ventures, where the prospect of capital gains is the main investment incentive, because of the lower rate imposed on similar gains in the U.S.A. Under the White Paper's proposal the capital gains tax would be up to 50% after five years and could be greatly in excess of this high figure in the interim period -- e.g. up to 80% in the first year.

At the present time, gains made in Canada are free from any taxation and this move to alter a positive incentive to a negative deterrent in one fell swoop is felt to be much too drastic and dangerous a proposal. It is therefore recommended that no capital gains tax exceed that in effect in the United States.

It is realized that this would not eliminate the thorny problems of differentiating between capital gains and business income. However, the fact that the gap would be considerably narrowed and that there is now a large body of jurisprudence on the subject, should ameliorate this disadvantage.

The Association also feels that the proposal which would impose a higher rate of capital gains tax on sales of closely-held shares than on widely-held shares would give rise to too many inequities and that action should be taken to remove this imbalance.

If the recommendation with regard to tax rate equality with the U.S.A. is acted on, the problem of widely-held vs. closely-held should automatically be resolved.

(v) Taxation of Middle Income Group

As was described in some detail on pages 9 and 10, construction industry personnel have above-average mobility in employment. Many skilled tradesmen, equipment operators and supervisory and administrative personnel, as well as managerial and professional employees, are in the middle income group. The facts that there is a shortage of trained construction personnel in the U.S.A. and that wages and salaries are in general appreciably higher and taxes lower in that country have already led to the emigration of a good many members of the Canadian construction labour and management force.

Accordingly, the White Paper's proposal to increase taxes on the middle income group is viewed with particular concern in that it would increase further the existing differential in income after taxes and encourage more construction personnel to eimigrate. Alternatively, wages and salaries would have to be increased in order to offset the consequence of the higher income taxes.

Once again, it is stressed that these issues not only relate to managerial and professional personnel but also to a large number of foremen, superintendents, skilled tradesmen and equipment operators in Canada's largest industry, where mobility of employment is perhaps the greatest characteristic of the labour force.

The proposal to increase taxes on the middle income group should accordingly be reconsidered in this light.

(vi) Capital Cost Allowances on Construction Items

a) Rental Buildings - Special Classification

While understanding the reasoning behind the proposals relating to the establishment of separate depreciation classes for each rental building of $50,000 or more in value, the

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Association submits that the additional proposal to disallow losses resulting from capital cost allowances, interest or property taxes to be deleted from a taxpayer's "other income" is unduly restrictive. For example, if a professional person switches from renting to owning, he would no longer be able to deduct office rental as an expense and should therefore be allowed his expenses of ownership as an equitable replacement, at least to the extent of the lost rental cost.

More importantly, the Association is concerned with the status of a construction developer who may have a number of projects under way simultaneously. It is our submission that the business losses arising from one project should be properly deductible from income arising from a similar project or related activity. To do otherwise would be grossly unfair, if the losses arise from a "loss venture", e.g. property that has lost value due to zoning changes or other action by Government or third parties beyond the control of the taxpayer. To deny such losses being deducted from so-called "other income" would be tantamount to requiring a manufacturer not to deduct losses from a particularly unprofitable product.

The problem of defining "other income" concerns the Association and, rather than trying to specify that construction is excluded, it is suggested that the establishment of a separate capital cost allowance for each building is sufficient action in this regard and that <u>all</u> current costs should be deducted from the income of a particular taxpayer derived from real estate development or related activities.

b) <u>Capital Cost Allowances - Rates</u>

Concern has been expressed by members of the Association with respect to the Government's announced intention of reviewing capital cost allowances and to inferences in the White Paper that they are now overly generous. Specific details of the Government's plans regarding

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capital cost allowances should be made available during the present review of its tax reform proposals in view of the important relationship between these allowances and tax rates, cash flow and capital investment considerations.

(i) Structures and Related Professional Fees

Inasmuch as repairs and maintenance expenses may be written off 100% as operating costs, inadequate capital cost allowances for buildings tend to encourage the penalization of quality in construction specifications in favour of low capital cost and subsequent higher maintenance expenditures. It is submitted that this uneconomical effect is mutually undesirable to the Owners and to the Federal Treasury.

In recent years mechanical and electrical equipment related to the heating, ventilating and air conditioning of buildings and elevators and escalators have comprised an increasingly important factor in the cost of such structures. Similar installations when directly related to production processes would qualify for the 20% capital cost allowance afforded to machinery. Their nature, functions and life expectancy are comparable. Therefore, it is recommended that the mechanical and electrical equipment portions of buildings should qualify for a capital cost allowance of 20%.

On the other hand, expenditures for professional fees, including those of the architectural, engineering and legal professions, made in the design and development of a construction project should be allowed as a business expense rather than be capitalized. The present situation gives rise to inequities. For example, the salaries of designers directly employed by Owners qualify as business expenses whereas competing Owners who engage architects and engineers on a consulting basis must capitalize the fees charged. Accordingly, it is recommended that professional fees involved in the execution of a construction project

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should be allowed as current operating expenses of the Owner for the purpose of determining income rather than be considered as a capital cost.

(ii) Construction Equipment and Tools

The same principle applies to construction equipment as to structures with respect to the tendency for inadequate capital cost allowances to encourage repair outlays rather than investment in new and more efficient contractor's plant. Only recently has the annual total of outlays for new construction equipment exceeded the total for construction equipment repair expenditures.

The Association greatly appreciates the action taken by the Federal Government to extend the capital cost allowance rate to 50% for a sizeable group of construction equipment units engaged in the excavation, moving, placing or compacting of earth, rock, concrete or asphalt. However, certain items of a comparable nature still only qualify for the 30% rate. These have been mentioned in several submissions to the Minister of Finance and are summarized in Appendix "C".

In addition, there is a special problem with respect to construction equipment used in remote areas and/or under extremely arduous conditions. In such cases it may well be more economical to abandon or junk the equipment than to pay the cost of return transportation and rehabilitation.

The minor changes in Class 22 required to accommodate the equipment described in the above two paragraphs would have little effect on Federal Government revenues but would be most helpful in assisting the industry's efforts to increase productivity. Therefore, it is recommended that Class 22 of the capital cost allowances be broadened to include flexible tracked vehicles, pick-up and service vehicles, floats and float tractors, trucks etc. used in

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quarries or pits, pile driving equipment, cranes, aggregate placing equipment, portable asphalt mixing plants and cement mixers and all construction equipment which is abandoned at the end of a project.

Generating sets used by contractors as a main source of power on remote sites are apparently being classified under Class 2 with a capital cost allowance rate of only 6%. Inasmuch as these sets are essentially construction equipment, it is recommended that electrical generating sets, powered by internal combustion engines with a speed of 900 r.p.m. or more, be included in Class 22 or at least in Class 10.

Class 12(h) continues to have a $100 limit with respect to tools and equipment that may be written off 100% in the year of purchase. This limit fails to recognize the increases in the cost of tools used by on-site workers and the replacement of hand-operated tools by power tools. Moreover, small items of construction equipment -- e.g. pumps -- often are worn out in less than a year. Accordingly, it is recommended that the present $100 limit under Class 10(h) be extended to cover all small tools and short-life equipment of a value up to $1,000.

(vii) Reporting of Construction Income for Tax Purposes

Over the years, problems peculiar to the construction industry have developed with respect to the determination of income for tax purposes. The Chairman of the Royal Commission on Taxation in his opening remarks to the Association during the presentation of its brief, stated that in all his years of professional life he had not encountered a problem more difficult than that of determining the actual performance of a construction company at a particular point in time. Recent decisions by the Department of National Revenue with respect to the calculation of "income" on contracts in process have additionally emphasized the dire need for revisions in the Income Tax Act and its administration, as long advocated by the CCA.

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As an administrative procedure, DNR has allowed contractors to elect to use the completed contract method of reporting income on stipulated lump sum contracts of under two years' duration. However, this option is not available with respect to stipulated unit price contracts. Both types of contract are similar with regard to firm prices, risks, etc., although the stipulated unit price contracts have a further complication in that the precise number of units to be executed is not known at the outset. Moreover, inasmuch as the completed contract method is not recognized in the Income Tax Act, taxpayers do not have recourse to the usual appeal procedures.

In view of the above, it is recommended that the completed contract method of reporting income, long approved by the Government, be given legal status in the Act; that it cover both stipulated lump sum and stipulated unit price contracts; and that special provisions be added to accommodate holdback arrangements and other factors impeding the flow of funds to construction companies.

The peculiarities of construction operations are such that the Industry warrants having special provisions in the Income Tax Act, rather than having its members being required to conform to general provisions and procedures that do not fit.

The Association has spent considerable time in developing the precise wording of a proposed Section of the Income Tax Act dealing specifically with the reporting of construction incomes and has engaged counsel to draft such an amendment. The CCA would be pleased to work with officials of the Departments of Finance and Justice with a view to implementing these recommendations by providing them with a copy of its proposed draft and any additional assistance that might be required.

....

(viii) Carry-Back and Carry-Forward of Losses

Experience in the construction industry has shown that one particularly unfortunate project can give rise to losses of a magnitude that cannot be absorbed by the enterprise in the seven-year period (one year backwards and five years forward) provided in Section 27 (I) in the present Income Tax Act. In this respect, the Association endorses the proposal by the Royal Commission on Taxation, that losses be allowed to be carried forward indefinitely. However, we urge that losses be allowed a carry-back of five years rather than the two-year limit proposed by the Carter Commission. Due to changing areas of activity of individual construction companies within groups etc., the restrictive carry-back period can and does cause hardship, particularly when the losses show up during a review at a date in time which precludes remedial action.

(ix) Consolidated Tax Returns

The proposal in the White Paper that appears to allow a family of closely-held firms to be a partnership, and thus submit a consolidated tax return, is desirable and should be implemented.

Moreover, the Association recommends that the Income Tax Act should contain a provision allowing for consolidated tax returns for related corporations generally.

(x) Association Convention Expenses and Investment Income

The White Paper's proposal that costs incurred by those attending conventions should be disallowed as a business expense for income tax purposes has general application and therefore does not perhaps fall within the intent of this Brief to concentrate on those items which have special significance to the construction industry. And yet, the reaction from the Association's membership to this proposal has been so adverse and universal that the matter must obviously and properly be brought to the Committee's attention.

....

The proposal is of great concern to the CCA with respect to its future effectiveness. The Association's annual conventions are by far its most important event in the year. Convention attendance would undoubtedly drop very substantially if the Government, in effect, doubled the cost to companies of having their representatives attend. Such a policy would be in direct conflict with Government policies and outlays designed to increase industrial efficiency and productivity.

In the case of the CCA, the annual conventions are deliberately held in late January or early February -- i.e. at a time when construction industry executives can best get away from their businesses. The recent convention held in Edmonton, February 5 - 11, 1970, comprised a comprehensive week of concentrated business and educational programs, attended by delegates from all ten Provinces and from both Territories. It might be added that a good number of senior Federal officials participated in this program and that full use was made of the convention as a medium whereby Government programs and policies were described to and discussed with a nation-wide construction audience.

Conventions, then, enable CCA members to learn about new development and trends and relate them to the operations of their own businesses -- to formulate policies that will help the industry to operate more efficiently and economically -- to make business contacts with many in the industry -- to "talk shop" with construction men from throughout the country (men who may have encountered a similar problem but aren't competitors and are willing to share the benefit of their experience). These are among the reasons why conventions make good business sense to both the delegates and to the economy as a whole.

Important by-products of conventions include the bolstering of Canada's convention and travel trades and helping to develop a Canadian identity. For example, if convention

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attendance was not allowed as a business expense under the Income Tax Act, the CCA would tend to hold all of its Conventions in Toronto or Montreal, where most of the potential delegates are located, rather than to follow its policy of taking its conventions to centres throughout the country so that members in other regions may more easily participate every so often.

In summary, the Association believes that there are already sufficient safeguards in the Income Tax Act and its regulations to prevent abuse in the form of improper charging to business expense of those incurred under the headings of conventions, travel or entertainment generally. The implementation of the White Paper's proposal in this regard would seriously reduce the effectiveness of industry associations and other organizations holding conventions and the ability of their respective members to develop business and to improve their efficiency.

It is similarly recommended that the proposal in the White Paper that trade associations' investment income be taxed be withdrawn. In this regard, it is pointed out that non-profit organizations budget in general to balance their revenues and expenditures, but not necessarily in every year.

Revenues are subject to fluctuations and conditions may quickly develop which indicate the desirability of making sizeable outlays not anticipated at the time annual fee schedules are set. These factors have led to the general recommendation that it is prudent for associations to endeavour to accumulate a reserve equal to at least a year's average outlay.

Once again using the CCA's experience as an example, the Association earned some investment income during 1969 but this was exceeded by more than four times by the year's operating deficit which in turn was financed from surplus funds. Had it not been for the latter, the Association might well have hesitated to sponsor the Canadian Inquiry on Construction Labour Relations.

....

Organizations which have been granted a non-taxable status have to meet certain prerequisites in order to qualify. Many of them obtain income from a variety of sources to enable them to perform the functions that entitle them to be a non-profit organization. Action which would subject one source of income to tax would serve to reduce the ability of the organization to execute its appointed role. This proposal should therefore not be implemented.

(xi) Valuation of Goodwill

The proposal to subject 40% of the proceeds received for goodwill in the first year of the new tax system gives rise to the very genuine concern that, in particular instances, this will amount to very onerous retroactive taxation. For example, the Association cannot agree that goodwill which may have been building up in a company for a generation or two will necessarily be enhanced by 40% just because the purchaser would be able to write the cost of this asset down at 10% per year, as proposed in the White Paper with respect to goodwill and other "Nothings".

The figure proposed by the Government appears to be relatively arbitrary and, in our opinion, unduly high. It is therefore suggested that, in order to avoid retroactive taxation, the percentage deemed to be subject to taxation on the receipts for goodwill be brought down to a figure more in keeping with the write-off proposed to be allowed to the purchaser.

(xii) Advance Tax Rulings on Proposed Business Transactions

Tax implications are fequently a major factor with respect to contemplated business deals such as acquisitions, mergers, etc. It should be possible to obtain prior rulings on the Government's point of view on the resultant tax effects of proposed transactions of this

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nature. (A reasonable fee would be in order, so as to discourage frivolous applications for rulings). Action in this regard is all the more important in view of the pending revisions to the Income Tax Act and Canada Corporations Act.

It is therefore recommended that administrative procedures be streamlined so as to provide for prior rulings on the resultant tax effects of proposed business transactions.

In addition, as suggested by the Minister of Finance, it is incumbent upon businessmen to engage in estate planning so as to ensure the most favourable distribution of the estate and continuation of the enterprise. Here again, it is essential that advance rulings on possible tax factors are known when the estate plan is drawn up.

(xiii) Desirable Revisions to Federal Excise Tax Act

The White Paper states that sales tax reform will have to wait until the income tax reforms have been dealt with. The Association wishes to stress that its main recommendations concerning the Federal sales tax do not constitute "reform". In essence, they seek to attain for construction items conformity in treatment under the Excise Tax Act with those of other industries. Action in this regard would have a positive anti-inflationary effect.

a) Construction Production Equipment and Materials

Sales tax on the construction industry's production equipment and on construction materials constitutes a tax on capital investment. Its undesirability has been recognized by previous Federal Governments.

All other industries are exempted from paying the Federal sales tax with respect to their production equipment. All construction equipment, however, bears the full 12% tax at the manufacturer's level. Bearing in mind that new, more efficient production equipment is the construction industry's main medium for increased productivity, it is recommended that

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all construction equipment be exempted from the 12% Federal sales tax, in conformity to the exemption afforded to all other industries for their production equipment.

The Royal Commission on Taxation stated that there is "neither economic nor social justification for the taxation of building materials". If revenue considerations do not allow the complete repeal of this impost on construction items, consideration should be given to granting relief by rebate on additional types of construction projects, such as is now afforded to schools, hospitals and certain other institutional buildings. It will be recalled that the Carter Commission gave top priority in this respect to materials used in the construction of producer goods projects.

Nor is it correct to assume that the Federal Government is merely "taking money from one pocket and putting it in another" with respect to its public works projects, housing projects financed largely or wholly with Federal funds, and other projects receiving Federal grants. The 11% or 12% Federal sales tax which the Federal Government collects on construction materials at the manufacturer's level may well pyramid to 15% or more by the time the materials are installed on the job-site. The taxpayers pay the difference.

The proposed Federal sales tax rebate system is very flexible in that relief can be given to certain types of project and/or certain regions of the country. In summary, it is recommended that the Federal Government exempt all construction materials as soon as possible and, if this must be achieved in stages, afford relief by rebate on additional selected categories of project.

b) <u>Prefabricated Construction Items and Components</u>

Section 29(2b) of the Excise Tax Act is incomplete in its coverage and therefore acts as a deterrent to the industry's endeavours to improve productivity and reduce costs by means of increased prefabrication. The Section also causes inequities and administrative confusion by

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providing that certain manufacturers are not deemed to be manufacturers for the purposes of the Act. Pending the complete exemption of all construction items, it is recommended that Section 29(2b) be amended to include all prefabricated construction items and components; and to provide that the goods involved are taxable at the manufacturer's material purchase cost.

c) Anti-Pollution Equipment

Anomalies exist with regard to the Federal sales tax treatment of pollution control equipment. For example, Municipalities have been granted an exemption for sewerage and drainage systems, but not for water filtration plants.

Moreover, Industry is eligible for a sales tax exemption for installations carrying waste, but not for anti-pollution equipment. In other words, if a factory installs a pipe which carries industrial waste into a river, the pipe and pumps are tax-free but if the company installs anti-pollution equipment to cleanse the waste before it goes into the river, the installation is taxable!

Then again, equipment which is placed on factory chimneys to take waste particles out of the air is only exempt from Federal sales tax if the removed particles are subsequently sold -- i.e. if the equipment is part of a production process. If there is no market for the salvaged materials and the equipment is installed solely as an anti-pollution measure, then it bears the full tax. An example within the construction industry in this regard is the smoke from asphalt plants used for paving operations.

Bearing in mind the cost of pollution control equipment and the high priority for its installation, it is recommended that the Federal sales tax exemptions now afforded to some types of anti-pollution equipment be extended to all such pollution control facilities.

....

d) Responsibility for Exemption Certificates

The Excise Tax Act holds the vendor responsible for any sales tax liability arising from the improper use of exemption certificates by purchasers. It is unreasonable to expect vendors to detect false declarations in this regard or to take court action if it has to be proven that customers falsely represented that the goods were to be used for tax-exempt purposes. Accordingly, it is recommended that the Act be amended to permit such certificates to be made out by the purchaser to the Crown, with a copy for the vendor, thereby making the purchaser responsible for his statements, rather than an innocent third party.

MEMBER ASSOCIATIONS OF THE CANADIAN CONSTRUCTION ASSOCIATION AND LOCATIONS OF THEIR HEADQUARTERS

Newfoundland

St. John's	Newfoundland & Labrador Construction Association
	Newfoundland & Labrador Road Builders Association

Nova Scotia

Halifax	Construction Association of Nova Scotia
	Nova Scotia Road Builders' Association
Sydney	Construction Association of Nova Scotia - Cape Breton Branch

Prince Edward Island

Charlottetown	Prince Edward Island Construction Association
Summerside	Prince Edward Island Road Builders' Association

New Brunswick

Bathurst	Northeastern (N.B.) Construction Association
Edmundston	Edmundston Construction Association
Fredericton	Fredericton Construction Association
	New Brunswick Council of Construction Associations
	Road Builders' Association of New Brunswick
Moncton	Moncton Construction Association
Saint John	Saint John Construction Association

Québec

Chicoutimi	Association des Constructeurs Saguenay-Lac St. Jean
Drummondville	L'Association Patronale des Constructeurs du Diocèse de Nicolet
Granby	L'Association des Entrepreneurs en Construction de Brôme-Missisquoi-Shefford
Hull	Association des Constructeurs du District de Hull et de L'Ouest du Québec
Montreal	Canadian Institute of Plumbing & Heating
	Canadian Roofing Contractors' Association
	Corporation of Master Electricians of Quebec
	Montreal Construction Association
	Quebec Concrete Association

Québec (cont'd)

Noranda	Western Quebec Construction Association
Québec	Association de la Construction de Québec
	La Fédération de la Construction du Québec
	Quebec Road Builders' and Heavy Construction Association
St-Hyacinthe	L'Association des Constructeurs St-Hyacinthe
Sherbrooke	L'Association des Constructeurs des Cantons de l'Est
Trois Rivières	L'Association des Constructeurs de la Mauricie

Ontario

Barrie	Barrie Builders' Exchange Service
Belleville	Quinte Construction Association
Chatham	Chatham Builders' Exchange
Guelph	Guelph Construction Association
Hamilton	Hamilton Construction Association
Kingston	Kingston Builders' Exchange
Kitchener	Kitchener-Waterloo Construction Association
Leamington	Builders' Exchange of Leamington
Lindsay	Lindsay and District Construction Association
London	London & District Construction Association
Orillia	Orillia District Builders' Exchange
Oshawa	Oshawa & District Construction Exchange
Ottawa	Canadian Association of Equipment Distributors
	Canadian Builders' Supply Association
	Ottawa Construction Association
	Portland Cement Association
Peterborough	Peterborough District Construction Exchange
St. Catharines	Niagara Construction Association
St. Thomas	St. Thomas & Elgin Builders' Exchange
Sarnia	Sarnia Construction Association
Sault Ste. Marie	Sault Ste. Marie Builders' Exchange
Sudbury	Sudbury Construction Association
Thunder Bay	Construction Association of Thunder Bay
Toronto	Aggregate Producers Association of Ontario
	Canadian Association of Painting and Decorating Contractors
	Canadian Automatic Sprinkler Association
	Canadian Institute of Steel Construction
	Canadian Plumbing & Mechanical Contractors Association
	Canadian Prestressed Concrete Institute
	Canadian Sheet Steel Building Institute
	Canadian Structural Clay Association
	Construction Industry Credit Bureau, CCMA

Ontario (cont'd)

Toronto (cont'd)	Electrical Contractors Association of Ontario
	Mechanical Contractors Association of Toronto
	Metropolitan Toronto Sewer & Watermain Contractors Association
	National Concrete Producers Association
	Ontario Federation of Construction Associations
	Ontario General Contractors' Association
	Ontario Refrigeration & Air Conditioning Contractors Association
	Ontario Road Builders' Association
	Ready-Mixed Concrete Association of Ontario
	Terrazzo, Tile & Marble Association of Canada
	The Insurance Bureau of Canada
	Thermal Insulation Association of Canada
	Toronto Construction Association
	Toronto & District Excavators Association
Windsor	Windsor Construction Association

Manitoba

Brandon	Brandon Builders' Exchange
Winnipeg	Manitoba Concrete Products Association
	Roadbuilders & Heavy Construction Association of Manitoba
	Winnipeg Builders' Exchange

Saskatchewan

Moose Jaw	Moose Jaw Construction Association
Prince Albert	Prince Albert Construction Association
Regina	Prairie Road Builders' Association
	Regina Construction Association
	Road Builders & Heavy Construction Association of Saskatchewan
	Saskatchewan Construction Association
Saskatoon	Saskatoon Construction Association
Swift Current	Swift Current Construction Association

Alberta

Calgary	Calgary Construction Association
Edmonton	Alberta Construction Association
	Alberta Road Builders' Association
	Edmonton Construction Association
Grande Prairie	Grande Prairie Construction Association
Lethbridge	Lethbridge Construction Association

Alberta (cont'd)

Lloydminster	Lloydminster Construction Association
Medicine Hat	Medicine Hat Construction Association
Peace River	Peace River Construction Association
Red Deer	Red Deer Construction Association

British Columbia

Dawson Creek	Dawson Creek - Fort St. John Construction Associations
Kamloops	Southern Interior Construction Association
Prince George	Prince George Construction Association
Vancouver	Amalgamated Construction Association of British Columbia
	British Columbia Construction Association
	British Columbia Road Builders Association
	Electrical Contractors Association of British Columbia
	Master Sheet Metal & Roofing Contractors Association of B.C.
	Pipeline Contractors Association of Canada
Victoria	Amalgamated Construction Association of British Columbia - Victoria Branch

Yukon Territory

Whitehorse	Yukon Builders' Exchange & Construction Association

APPENDIX "B"

CANADIAN CONSTRUCTION ASSOCIATION

CONSTRUCTION HOUSE, 151 O'CONNOR ST.,
OTTAWA 4, CANADA
AREA CODE 613/236-9455

YOUR FILE ____________

OUR FILE 214

April 30, 1969.

Hon. Salter A. Hayden, Chairman,
and Members of the Banking, Trade
& Commerce Committee,
The Senate,
Parliament Buildings,
Ottawa 4, Canada.

Honourable Senators:

<u>Re: Bill C-165, Estate & Gift Taxes</u>

The Canadian Construction Association very much appreciates the opportunity of presenting its views on the above-mentioned Bill in the appended Brief. The matter is of widespread and very special concern to our Members.

The Construction Industry is Canada's largest. Virtually all construction companies, equipment distributors and builders' supply firms are family or closely-held concerns. Moreover, firms in our industry are typically short on liquid assets. This combination of factors has meant that members of the construction industry have found estate taxes and succession duties especially onerous.

The Association has stressed many times in the past the deleterious effect that death duties have on the growth and continuation of family firms and on initiative and enterprise generally. When the Budget was introduced last October, the CCA immediately expressed its appreciation of the exemption of spouses from estate taxes but also its grave concern at the increased taxes that would have to be paid in the case of many estates due to the application of higher rates on much smaller estates and the integration of estate and gift taxes. A series of representations have subsequently been made on behalf of the industry.

The main points contained in these submissions have already been dealt with in detail during the Senate Debate following the Bill's first reading. It was therefore concluded that a lengthy treatment of them in the appended brief was unnecessary. The Association would like, however, to stress at this hearing the application of these general principles to the construction industry, rather than to the specific wording and administrative aspects of the Bill.

All of which is respectfully submitted,

M. Stein
President

S.D.C. Chutter
General Manager

I N D E X

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1. SUMMARY OF RECOMMENDATIONS

1. <u>That the previous schedule of estate taxes be maintained pending further study.</u>

   Such action would:

   a) permit the consideration of estate taxes in the light of other proposed tax reforms to be included in the Federal Government's White Paper in a month or so's time.

   b) enable the elements of relief contained in Bill C-165 which enjoy widespread support, such as the exemption for spouses and the option of tax payment in instalments, to be enacted. (The option of using either the previous or new exemptions until next August has already been granted).

   c) permit discussions with the Provincial Governments who currently receive up to 75% of estate tax gross revenues and in several cases are committed to a policy of rebating their shares or have it under serious consideration.

   d) afford some measure of assurance to members of family firms who are adversely affected by the new schedules of estate and gift taxes.

2. <u>That the passage of closely-held companies from one generation to another be allowed without attracting estate taxes so onerous that they constitute a major factor in selling or closing down such firms.</u>

   In this regard, it is again suggested that serious consideration be given to an Ontario Economic Council proposal that the value of shares of private Canadian corporations be exempted from estate tax when passed to members of the immediate family. (Subject to their not being sold for a minimum period of ten years and other safeguards).

2. SIZE AND NATURE OF THE CONSTRUCTION INDUSTRY

The Construction Industry is Canada's largest and operates in all sections of the country. The value of the construction program this year is estimated to be some $13.3 billion. (Federal Government's White Paper, "Public and Private Investment, Outlook 1969"). Construction outlays in Canada have on average accounted for roughly one-fifth of the Gross National Product. They now provide jobs in construction operations to the year-round equivalent of some 600,000 Canadians and to an even larger number engaged in the manufacturing, transporting and merchandising of construction materials, components and equipment.

D.B.S. estimates that over 80% of the construction program is carried out by contractors. The balance is executed by Owners ranging from those with sizeable construction crews to the 'do-it-yourself' individual. Even where prime contractors are not used, the construction materials, components and equipment are supplied by private firms. Moreover, equipment may be rented from private firms and some of the construction work let to specialty contractors. The trend is towards increasing use of the Contract Method.

The family firm or one which is "closely-held" appears to have characteristics that are especially appropriate for the construction industry. All but a handful of the general contractor, trade or specialty contractor, equipment distributor and builders' supplier firms are in this category. Many are sizeable concerns with annual volumes of business amounting to millions of dollars. Even some of those which are publicly listed are still controlled and operated by the founding family. A good many of the firms manufacturing construction products are also family or closely-held firms.

The very high proportion of such companies in the construction industry is obviously due in large measure to the facts that entry into the industry is easy and that many firms are small or medium-sized. And yet, as mentioned above, there are also a sizeable number of multi-million dollar firms that are family enterprises. Capital investment in equipment etc. is often heavy. Construction is a high risk business with many hazards. Competition for work is extremely keen. These factors are such that a high degree of personal financial stake and involvement in the management of construction companies seem to be particularly important elements in their success. Similarly, many large manufacturing concerns as a matter of policy select family firms to act as their distributors in order to have the same qualities of aggressive, personal operation.

The construction program is made up of approximately 60% building construction, of which half is residential construction, and 40% engineering construction. The high degree of specialization is reflected by the abundant use of sub-contractors and sub-sub-contractors. This and the fact that those directing the operations of each specialist contractor have a personal incentive to see that the work is carried out as quickly and economically as possible, have been cited as the main reasons why construction work is carried out faster and with a smaller on-site labour force in North America than in Europe.

3. CCA POLICY STATEMENT ON ESTATE TAXES

For many years the Association has contended that the benefits to the state of the relatively small revenues derived from death duties have been more than offset by their inherent deterrents to initiative and economic expansion. Accordingly it was recommended that they be abolished and that,

for immediation relief, the exemptions for estate taxes be raised to $100,000 and that an option be provided for the deferment for one year of the evaluation of an estate.

At the last CCA Annual Meeting (Montreal, January, 1969) the views of the Association were incorporated in the following Statement of Policy adopted by delegates at the closing session:

"Estate taxes and succession duties work to the detriment of family-owned businesses by preventing them from being passed on in viable form. At the same time, they encourage the removal of large capital holdings together with managerial ability from the country with consequent hardship to employees. It is therefore recommended that estate tax be amended to provide for the passage of family-owned enterprises to members of the immediate family."

4. DIFFICULTIES EXPERIENCED BY CONSTRUCTION INDUSTRY FIRMS DUE TO DEATH TAXES

It has been recognized by the Minister of Finance that estate taxes place a special burden on family firms and on estates in which the major assets are not liquid. Both factors are the norm in the construction industry. The two main assets of a contracting firm are usually know-how and equipment. Neither are liquid in nature. Moreover, the firm may well also have considerable indebtedness.

The combination of these conditions has caused considerable problems in the continuation of the typical construction firm. Indeed, the very prospects of having to pay estate taxes and succession duties have been an important factor in the sale of firms in the construction industry. It should be noted that there is normally a very limited market for shares of construction firms and that potential purchasers are often only interested if they can acquire a controlling interest.

In addition, difficulties have frequently been experienced in arriving at the proper value of a share in a construction company. Very few are listed. Often the death of a principal shareholder will in itself have a very marked effect on a share's value. That such evaluations can only be arbitrary decisions is reflected by the fact that there are often appreciable differentials between those established by Federal estate tax officials and Provincial succession duty officials.

The above has occasioned serious problems in the past. The provisions of Bill C-165 will further increase the estate tax problems in the case of many members of the construction industry inasmuch as the rates of tax have been increased so that, for example, the 50% rate will apply on estates of $300,000 and gift taxes are to be integrated with estate taxes.

A $300,000 estate is not a large one, relatively speaking, in modern times. Moreover, the integration of gift taxes with estate taxes and the continuation of inflation will likely mean a trend towards an increased number of estates of this size and over. The 50% rate did not previously apply to estates in Canada until they were $1,550,000 and it is understood that it applies in the United States only when the $2,500,000 level is reached. Thus the incidence of the tax is much greater on sizeable estates then in the past and it is very considerably out of line with that levied in the U.S.A.

Accordingly, deep concern has been expressed over the increased problem that the sons in established family firms will face when both their parents die, in term of being able to carry on a business which has little in the way of liquid assets. The exemption afforded to spouses gives relief but it may be of short duration and be more than offset by

the higher rates of estate taxes. In some cases the head of a family firm is already a widower.

Similarly, the option of paying estate taxes over a period of years will also be helpful in a number of cases. However, the fundamental question is really whether sizeable sums of money can be paid -- even over a five-year period -- and still be able to operate the company. Incidentally, the Federal Government's position as a preferred creditor in these circumstances will reduce the ability of construction companies to obtain surety bonds which are required by the Federal Government and many other Owners as a condition of being awarded a contract.

In the past the schedule of rates for estate taxes have been changed infrequently. It is greatly feared, therefore, that if the increased rates of tax contained in Bill C-165 are enacted by Parliament they will likely not be subject to review or revision for a lengthy period. Moreover, there is no knowledge at this time of the Federal Government's intentions with respect to the recommendations of the (Carter) Royal Commission on Taxation. If, by chance, a capital gains tax is imposed and a deemed capital gain held to occur at time of death, the whole impact and problem of death taxes with respect to the continued operation of family firms with little liquidity would be escalated still further.

The Association is aware that the Carter Commission stated that there was nothing special about family-owned firms that necessarily made them more efficient than others and that a study commissioned by it on Death Taxes stated that there was not much factual evidence to support the contention that such taxes caused family firms to sell out either to large corporations or to foreign interests or to both. With regard to the first opinion, the Association contends strongly that family firms do

seem to be well-suited to carry out most construction operations. With regard to the second point, it is not known if the construction industry was included in the authors' study. We do know, however, that our industry has faced serious problems with respect to death taxes in the past leading to sell-outs. The future prospects are for more of this due to higher taxes under the provisions of Bill C-165.

Up until now, the references to difficulties caused by estate taxes have been related to those experienced by members of the family paying them. The position of company employees is often of sincere equal concern to those operating family firms. In many cases these employees have worked most of their adult lives in helping the business to operate and expand. The incidence of onerous death taxes on those operating a family firm will either restrict its operations or lead to its sale or closing down. Alternatively, the prospects of paying death taxes also lead to sell-outs. In the former case where the company business is curtailed the long-term employee may well suffer by way of reduced bonuses, pay increases or scope for advancement. If the firm is sold or closes down, employment in a similar position is by no means guaranteed and there frequently would be losses in terms of fringe benefits.

Another problem caused by the prospects of high rates of death taxes is one experienced by the country as a whole. Reference here is made to the departure of successful executives to "tax havens" or to other regions where the incidence of income and death taxes is lower than in Canada. The capital they take with them constitutes an appreciable loss but perhaps of even greater concern is the loss of executive ability in the persons departing. Their talents and drive are also sorely needed and they may well be a decade or more before normal retirement age.

5. DETERRENTS TO ESTABLISHMENT, OPERATION AND EXPANSION OF BUSINESSES

The Association has no desire to indulge in extreme talk on the deterrent effect which taxes in general or death taxes in particular have on incentives. At the same time, it is believed that greater recognition should be given by the Federal Government to the effects that they have on decisions related to the establishment, operation and expansion of businesses. And it is largely upon the initiatives shown by these enterprises that Canada's economic development and the revenues of governments are based.

It is doubtless true that people are more aware of income taxes than of death taxes. For one thing, payment of income taxes is an ever-present experience. Yet it is possibly due to this awareness of income taxes that causes members of our industry to be especially concerned about death taxes. After having paid corporation income tax and other business taxes and having ploughed back hard-won earnings into the business, the knowledge that they are not free to dispose of their personal savings (notwithstanding the fact that they have borne high rates of personal income tax) causes special resentment.

Accordingly, it is not so much a question of the number of estates which attract the higher rates of tax as it is the effect of the prospects of such taxes in the future on <u>present</u> investment and other business decisions. Will a capital outlay be cancelled on the grounds that it may well cause estate tax problems by reducing company liquidity? Will a new business venture or expansion be decided against on the basis that net returns after income and death taxes make the risk involved unattractive?

The number of people who attempt to create and perpetuate businesses in Canada is relatively few. Risk capital and enterprise are urgently needed. Is it worth risking a reduced incentive for the expansion or continued operation of their firms for the relatively small net amount of tax revenues that the higher rates of tax on estates and gifts will bring? Psychological speculation on entrepreneurial motivation is a luxury that this country cannot afford.

As mentioned, construction is a high risk industry. Years of effort and long hours of labour may go unrewarded or the build-up of company resources wiped out by conditions on one or two contracts. Fluctuations in the construction cycle are marked. Weather and terrain can cause serious problems. Competition is high and the casualty rate is heavy. When times are tough, the employers may pay themselves less than their employees to keep the company from going under. For those who succeed, however, the rewards may be high. This is a powerful incentive.

It is not only vital that there be sufficient incentives to encourage people to establish businesses but also to expand them. Conversely, it is most undesirable if those who have built up a successful family or closely-held firm know that its future operations may well be in jeopardy because of death taxes. Economists predict that the demands to be placed on the construction industry for its services are due to be increased very greatly during the balance of the century. Its growth should be encouraged, not deterred. The risks contained in the new estate tax schedule of rates would seem to be out of all proportion to the revenue involved.

6. CONCLUSIONS AND RECOMMENDATIONS *

Several of the Provincial Governments have already recognized the undesirable features of high death taxes. Two rebate their 75% share of

* cf. also page 1.

gross estate tax revenues; others plan to do so. In such regions capital investment, business expansion and the retention of successful executives have been encouraged. In view of this trend, it would seem inconsistent, to say the least, to proceed with legislation which (while affording measures of relief in some respects) imposes higher taxes on many estates.

Moreover, it is difficult to segregate this one area of tax reform from all of the others. In view of the fact that the Federal Government is soon to publish a White Paper on Tax Reform, it would seem only reasonable to defer enacting at least those portions of Bill C-165 which involve higher taxes until the White Paper can be studied.

The Association has in the past drawn attention to a recommendation in a report published by the Ontario Economic Council which is designed to allow the passage of closely-held corporations from one generation to another or to other members of the immediate family without the attraction of estate taxes, or at least that a significant reduction in the rate of tax be allowed in such cases:

> "That where more than ten percent of the issued and paid-up capital of a private Canadian corporation possessing assets of which not more than ten percent are securities of public corporations or government is represented by shares owned by a deceased at the time of his death, the value of such shares be included in determining the rate of transfer tax to be applied to other estate assets, but such value be exempted from transfer tax unless such shares are sold within a period of ten years."

Such a measure would facilitate the growth of Canadian enterprises and it is recommended that it be given serious study and that it be expanded to include non-corporate enterprises.

When the exemption for spouses from estate tax was announced in the Budget Address last October, reference was made to the fact that the wife had often played a major part in the development of an estate. The same is true of many sons or nephews who have devoted many years of their lives to the building up of a family business in the construction industry. This fact deserves full consideration.

APPENDIX "C"

PROPOSED CHANGES TO CLASS 22 IN THE CAPITAL COST ALLOWANCE REGULATIONS WITH RESPECT TO CONSTRUCTION EQUIPMENT ITEMS

Class 22 should be broadened to include appropriate items now not presently covered such as:

a) Flexible, Tracked Vehicles - These are required for all types of exploration and construction work in the more isolated areas of Canada especially in muskeg areas, and particularly in winter. These vehicles are used as carriers on which are mounted a great variety of loads. They are used as personnel carriers, trucks and tractors. They are subject to very high maintenance costs and short life. They should be included in Class 22 since 50% depreciation on the undepreciated balance realistically expresses the actual life of this equipment.

   Furthermore, construction and exploration in the remote areas of Canada should be encouraged, not penalized, as the present classification of this type of equipment tends to do.

b) Pick-up and Service Vehicles (four wheel drive) - This type of equipment experiences actual physical depreciation of 50% per year on the declining balance. It is required for construction in the remote areas of Canada and, therefore, should be included in Class 22 to help encourage the development of these areas.

c) Floats and Float Tractors - These are designed and used specifically for transporting Class 22 moveable equipment to job-sites, and should, therefore, be included with those assets for capital cost allowance.

d) Trucks and Other Equipment used in Quarries and Pits .- Currently these units fall under the Mining category and are specifically excluded from Class 22. In view of the radical proposals re mining depletion allowances and tax holidays it is urged that this construction equipment now be included in Class 22.

e) Pile Driving Equipment - This equipment should be included under Class 22 because of high maintenance costs and because the placement of concrete piles or a substitute to create structure foundations, or to protect an excavation from caving in is an integral part of excavation and foundation construction.

f) Cranes - Very often these are used in an excavator or concrete placement configuration and as such are the fundamental machines for that operation. They should not be penalized because they can do other work.

g) Aggregate Producing Equipment (crushing/washing/screening) - These units are often used by contractors exclusively for the construction industry. The nature of the work done by this equipment makes it depreciate as rapidly as any other equipment used in the road building industry.

h) Portable Asphalt Mixing Plants and Portable Cement Mixers - Again, the nature of the work done by this equipment makes it depreciate as rapidly as any other equipment used in the road building industry.

APPENDIX "D"

SUMMARY OF RETURNS TO CCA QUESTIONNAIRE

WHITE PAPER ON TAXATION - EFFECT OF PROPOSED CHANGES ON YOUR OPERATIONS

Please complete and return this Questionnaire to Canadian Construction Association, 151 O'Connor Street, Ottawa 4, Ontario

The radical proposals for tax reform contained in the White Paper recently tabled in the House by the Minister of Finance, Hon. E.J. Benson, have received widespread publicity. The Canadian Construction Association and other interested groups and individuals have expressed concern over the combined impact of some of the proposals and existing estate tax legislation on the continuance of family-owned enterprises. The matter was reviewed at the CCA Legislation & Taxation Committee Pre-Convention meeting held on December 1, 1969. It was the decision of the Committee that in order for the Association to represent properly the wishes of the total membership, it was necessary to solicit the views of all members on the various aspects of the proposed tax reform.

It would therefore be appreciated if you would complete the following questionnaire and return it at your earliest convenience. It is understood that many members are awaiting the report of their professional advisors as to the effect of the proposals on their operations. If your reply will be delayed pending such a report or for any other reason, it would be appreciated if you would advise as to the approximate date that the completed questionnaire will be forwarded to Construction House.

If we don't hear from you, it will be assumed that either you favour the proposed tax reforms and/or the changes suggested will have little or no effect on your operations.

I. Name of Company: Total - 366 = 100%

I. Category: (Please check)

Building contractor [] 113 = 31%	Trade contractor [] 151= 41%
Road Builder and Heavy Construction [] 23 = 6%	Manufacturing contractor [] 13 = 4%
Manufacturer and supplier [] 66 = 18%	

II. Average Gross Revenue from construction:

Total = 366 = 100%

Under $100,000.00 [] 40 = 11%	$100,000.00 to $500,000.00 [] 108 = 30%
$500,000.00 to $1,000,000.00 [] 55 = 15%	$1,000,000.00 to $3,000,000.00 [] 71 = 19%
$3,000,000.00 to $5,000,000.00 [] 29 = 8%	$5,000,000.00 to $10,000,000.00 [] 22 = 6%
Over $10,000,000.00 [] 41 = 11%	

V. We would appreciate hearing from you the assessment of the effect of the following proposed changes in the Canadian tax law on the continuing operation and growth of your business:

A. Profound effect, ability to continue in business in doubt

B. Serious effect, will probably retard proper growth

C. Little or no effect

1) Proposed removal of low rate of tax on company income below $35,000.00, bearing in mind the full effect of the proposal to integrate personal and corporate income for closely-held corporations.

Total 370 = 100%	A []	B []	C []
Comments	56 = 15%	252 = 68%	62 = 17%

(see paragraphs 419 - 445 - White Paper)

2) Effect of the proposed taxation of capital gains at full income tax rate for shares of closely-held corporations.

Total 322 = 100%

(see paragraph 3.31 - White Paper)

A /7	B /7	C /7
59 = 18%	188 = 58%	75 = 24%

Comments:

3) Effect of capital gains on widely held shares being taxed at 50% of the full income tax rate, bearing in mind the proposal to deem realization of capital gains every five years.

Total 299 = 100%

(see paragraph 3.32 - White Paper)

A /7	B /7	C /7
42 = 14%	119 = 40%	138 = 46%

Comments:

4) The effect of 2) and 3) on the continuation of your business, bearing in mind the estate tax amendments introduced last year and the proposal by the Government that no deemed realization of capital gains takes place at the time of death but only at the time of sale.

Total 293 = 100%

A /7	B /7	C /7
81 = 28%	115 = 39%	97 = 33%

Comments:

5) Proposal to change Capital Cost Allowances on rental buildings costing $50,000 or more to establish a single class for each structure to force earlier recapture of depreciation. Also disallowance of losses on buildings arising from capital cost allowances interest or property taxes to offset other income.

Total 289 = 100%

(see paragraph 5.17 - White Paper)

A /7	B /7	C /7
31 = 11%	100 = 35%	158 = 54%

Comments:

6) Proposal to eliminate club and convention expenses for tax purposes. We don't expect this to be as serious as the other questions with regard to the continuation of your business, but would appreciate your comments on the proposal, particularly with regard to your participation at CCA Conventions and other meetings.

Comments: (see paragraph 5.9 - White Paper)

Most comments strongly opposed to this proposal. Disallowance of convention expenses would work particular hardship on taxpayers remote from main business centres.

CONSTRUCTION COMPANY PROFITS AND LOSSES

1965 - 1967: DBS #61-207
1960 - 1964: DNR Corp. Statistics

(These two series are calculated on somewhat different bases)

	Number of Profit Companies	Number of Loss Companies	Total Number Reporting	Percentage Reporting Loss	In Million of Dollars, Current Year	
					LOSS	PROFIT
1967			16,183		68.8	244.7
1966			14,846		44.8	210.8
1965			15,315		49.4	167.4
1964	9345	4499	13,844	32.5%	67.7	148.7
1963	8215	4495	12,710	35.4%	71.1	132.8
1962	7954	4762	12,716	37.4%	66.9	137.9
1961	7327	4574	11,901	38.4%	50.3	141.5
1960	7215	3956	11,171	35.4%	59.2	137.1

CORPORATION PROFITS - VARIOUS INDUSTRIES
DBS - #61-207

For the year 1967 (latest reported)	Sales of Reporting Companies	Profits of Reporting Companies	Percentage Profits of Sales
Construction	$ 7,615.0 million	$ 175.9 million	2.30
Fishing & Trapping	21.1	.8	3.79
Agriculture	417.0	15.9	3.81
Total Manufacturing	42,392.9	1,622.4	3.82
Paper & Allied Industries	3,664.8	182.6	4.98
Total Service Industries	3,530.8	188.0	5.32
Petroleum & Coal Products	1,844.8	127.4	6.90
Total Mining	4,921.2	737.1	14.97

COMMERCIAL FAILURES

Under the provisions of the Bankruptcy and Winding Up Acts (DBS #61-002)

YEAR	CONSTRUCTION GENERALS	CONSTRUCTION TRADES	CONSTRUCTION TOTAL	TOTAL ALL INDUSTRIES	
1969	168 15962	272 19997	440 35959	2695 210950	* Number of failures ** Liabilities in thousands of dollars
1968	177 16542	265 11066	442 27608	2516 180735	* **
1967	193 38422	258 16427	451 54849	2631 218064	* **
1966	219 22083	340 16819	559 38902	3007 247467	* **
1965	243 28862	385 24411	628 53273	3295 393650	* **
1964	308 35663	398 14313	706 49976	3449 208734	* **
1963	273 23269	441 16915	714 40184	3677 195602	* **
1962	244 17056	329 10693	573 27749	3190 149440	* **
1961	195 13535	275 10130	470 23665	2659 116520	* **
1960	271 19444	336 13717	607 33161	2828 174548	* **
1959	177 11272	272 10596	449 21868	2229 95786	* **

	NUMBER		LIABILITIES	
	1968	1969	1968	1969
Construction	442	449	$ 27,608,000	$ 35,959,000
Manufacturing	267	277	32,081,000	40,046,000
Services	382	417	23,114,000	23,910,000
Transportation & other utilities	168	203	7,251,000	7,790,000
Trade	1,061	1,149	56,557,000	50,668,000
Other	196	209	34,124,000	52,577,000